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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Petition for US West Communications, Inc.	)	CC Docket No. 98-157
for Forbearance from Regulation as a	)	
Dominant Carrier in the Phoenix, Arizona	)	

COMMENTS OF AMERITECH

Ameritech[1] submits these comments in support of the petition of US West in the above-captioned matter. Because of the substantial amount of competition in the provision of high capacity services in the Phoenix metropolitan statistical area ("MSA"), US West is asking for the Commission, pursuant to §10 of the Communications Act, to forbear from regulating US West as a dominant carrier with respect to those services in that area. The Commission should grant US West's request; but it is equally important for the Commission to quickly adopt a broader pricing flexibility framework applicable to the industry as a whole so that customers can realize all the benefits of the explosive growth in competition.[2]

In its Access Reform Order, the Commission first modified the access rate structure to bring it into line with cost-causation principles and to phase out significant implicit subsidies.[3]

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[1] Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

[2] Ameritech notes that the Commission has just released a Public Notice (FCC 98-256, released October 5, 1998) asking parties to refresh the record in its price cap and access reform proceedings -- including asking for comment on Ameritech's and Bell Atlantic's pricing flexibility proposals.

[3] *In the Matter of Access Charge Reform, etc.*, CC Docket No. 96-262, *et al.*, First Report and Order, FCC 97-158, (released May 16, 1997) ("Access Reform Order") 12 FCC Rcd. 15982 at ¶35.

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In addition, the Commission endorsed the use of a "market-based approach," as opposed to a "prescriptive" approach, as a check on local exchange carrier pricing. As the Commission noted:

> We decide that adopting a primarily market-based approach to reforming access charges will better serve the public interest than attempting immediately to prescribe new rates for all interstate access services based on the long-run incremental cost or forward-looking economic cost of interstate access services. Competitive markets are superior mechanisms for protecting consumers by ensuring that goods and services are provided to consumers in the most efficient manner possible and at prices that reflect the cost of production. Accordingly, where competition develops it should be relied upon as much as possible to protect consumers and the public interest. In addition, using a market-based approach should minimize the potential that regulation will create and maintain distortions in the investment decisions of competitors as they enter local telecommunications markets.[4]

Unfortunately, the Commission left the details of its market-based approach to be resolved "in the subsequent report and order in this docket."[5]

Since the issuance of the Access Reform Order, the Commission has had substantial input on the way in which a market-based approach can be appropriately configured. Of significance is Ameritech's own proposal which is included herewith as Attachment A. That proposal is comprehensive and easy to administer and provides a solid framework for permitting the market to operate in a reasonable manner that will facilitate competition on an economically rational basis. The Commission should act quickly to adopt such a framework to complete the promise offered by the Access Reform Order to rely on the market to drive the benefits of competition without the distortions of unnecessary regulation.

US West's petition contains a more-than-adequate demonstration of the extent of competition for high capacity services in the Phoenix MSA. It is very clear that, for high

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[4] *Id.* at ¶263.

[5] *Id.* at ¶270.

capacity services in Phoenix, US West has ceased to be a "dominant carrier". In order to permit customers to receive the full benefits of that competition, it is necessary that US West be permitted to compete on the same basis as other providers of high capacity services. However, as Ameritech and other carriers have shown the Commission,[6] competition for high capacity service is not limited to the Phoenix area. Because of that fact, until the Commission has adopted a comprehensive national pricing flexibility framework, it is likely that incumbent local exchange carriers will seek relief on a case-by-case basis and the full benefits of competition will, thereby, be delayed.

In summary, the Commission should grant US West's petition but also move quickly to adopt a comprehensive national framework that fully implements the Commission's market-based approach to the pricing of access services.

Respectfully submitted,

Michael S. Pabian

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Dated: October 7, 1998

[6] See, e.g., Attachment A.

CERTIFICATE OF SERVICE

I, Todd H. Bond, do hereby certify that a copy of the foregoing Comments of Ameritech has been served on the party listed below, via first class mail, postage prepaid, on this 7th day of October, 1998.

By: ______________________
Todd H. Bond

James T. Hannon
Jeffry A. Brueggeman
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Attachment A

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Office 202/326-3822

Ameritech

Anthony M. Alessi
Director
Federal Relations

April 9, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: **Ex Parte Filing**
CC Docket 96-262

Dear Ms. Salas:

On Tuesday, April 7, 1998, Mr. Karl Wardin, Mr. Andrew McLean, Mr. Mike Alarcon, Ms. Denise Reidy and I met with Ms. Jane Jackson, Chief, Competitive Pricing Division, Mr. Richard Lerner, Deputy Chief, Competitive Pricing Division, Mr. Aaron Goldschmidt, Ms. Tamara Preiss, Mr. Raj Kannan, Mr. Jason Kerben, Mr. David Konuch, Mr. Jay Atkinson and Mr. Chris Barnekov to discuss access reform and pricing flexibility in the above referenced docket. The attached material was used as part of our discussion.

Sincerely,

A. M. Alessi

Attachment
cc: J. Jackson
R. Lerner
A. Goldschmidt
T. Preiss
R. Kannan
J. Kerben
D. Konuch
J. Atkinson
C. Barnekov

Proposal for Pricing Flexibility under the Market-Based Approach

Access Charge Reform

- Commission policy prior to Access Reform proceeding
  - » Additional pricing flexibility may be warranted as access competition develops
  - » Commission recognition that price cap system is an imperfect substitute for actual competition
- Access Reform NPRM and Order further recognized need for additional pricing flexibility
  - » Pre-defined "competitive triggers" framework introduced as method for ILECs to achieve certain pricing flexibility
  - » Commission commitment to address the issues of timing and degree of pricing flexibility in subsequent report and order

TA'96 and the Development of Competition Accelerate the Need for Pricing Flexibility

- TA'96 has laid foundation for opening local exchange and exchange access markets to additional competition
  - » Additional pricing flexibility is not a radical change in direction, rather a natural progression in light of the 1996 Act. Previous Commission action in the Expanded Interconnection Order to open up the transport market has facilitated greater competition but more is needed
  - » The Commission's Orders on Local Competition, Access Reform and Universal Service and state approved interconnection agreements have facilitated opening these markets and removing barriers to entry
- The Commission recognized Ameritech's competitive marketplace in the Customer First proceeding prior to TA'96 and mandates to open up local exchange and exchange access services to competition
  - » "We conclude competition emerged...to the point that where our access charge structure may interfere with the efficient operation of an emerging competitive market. This could prevent end users from receiving the full benefits of competition and therefore, we conclude that Ameritech has met its burden of demonstrating that special circumstances justify the waivers..." (Customer First Order, par. 80, 2/15/96)

Current Ameritech Competitive Environment Requires Additional Pricing Flexibility

- Competitive Ameritech market (Data as of 1/1/98)
  - » >73 approved interconnection agreements
  - » >69,000 UNE loops and 390,000 resold lines
    - – Provisioned resold lines in 920 of Ameritech's 1,155 wire centers
  - » >4 billion reciprocal compensation MOU exchanged with competitors in 1997
  - » >95,000 interconnection end office trunks in service
  - » >1000 NXXs assigned to CLECs in Ameritech's region, each representing 10,000 numbers
  - » >200 Ameritech wire centers with collocation

Pricing Flexibility is Needed Now

- Providing flexibility to ILECs promotes efficient competitive entry, will ensure right amount of investment at right time and at right place
- Current regulation is not necessary in competitive areas because competitive forces will continue to exert pressure on ILEC access service pricing:
  - Recent AT&T/TCG and MCI/WorldCom mergers have created the opportunity for access charge savings for AT&T and MCI of nearly 10%
  - TCG Vice President for Great Lakes region stated it doubled its revenues and tripled its MOU each year and plans to increase its Chicago sales forces 250% to 75 in 1998
  - Chairman Kennard recently noted in his NASUCA speech (2/9/98) the amount of capital investment made in CLECs and that "Wall Street clearly sees opportunity here"
- The prompt adoption of a self-perpetuating framework for granting pricing flexibility to ILECs will reduce the need to use the resource intensive waiver process

Immediate Relief Needed for Specific Services

- Directory Assistance services should immediately be removed from price cap regulation due to substantial competitive pressure
  - Multiple providers in Ameritech's region have led to substantial declines in call volumes for Ameritech

- Interstate IntraLATA services should be removed from price cap regulation no later than IntraLATA toll dialing parity becomes effective

- Transport Hi-Cap Services

Proposed Framework for Pricing Flexibility

- Three phase framework under which pricing flexibility increases as competition increases
- ILEC would file a "Request for Phase X Relief" for each group of services and geographic area
- Requested relief to be acted upon within 90 days by the Common Carrier Bureau
- Comments on request filed within 30 days, no reply cycle necessary given all parties can conduct ex-partes
- Request granted or denied within 60 days after comments filed or allowed to take effect without further Commission action 60 days from the comment filing date

Proposed Framework for Pricing Flexibility

- ILECs may seek flexibility for a service group in a self-defined area no smaller than a LATA
  - Competition will evolve differently for different services and different LATAs
- Key service groups within LATAs to be addressed within framework:
  - Transport -- HiCap Special Access, Switched Transport (Direct Trunked and Tandem) and all Analog Transport Services
  - Switched Access -- all per MOU access services; ability to deaverage PICC and EUCL
- Different competitive triggers to be met prior to granting relief for Transport and Switched Access

Competitive Triggers for Transport Flexibility

- Phase I - 100 DS1 equivalent cross connections in a study area
- Phase II - Competitors have ability to offer service to 25% of the market
  - » At least 25% of DS1 equivalents can be addressed by competitors through collocation in Ameritech's wire centers within the designated competitive area
- Phase III - Competitors have ability to offer service to 75% of the market
  - » At least 75% of DS1 equivalents can be addressed by competitors through collocation in Ameritech's wire centers within the designated competitive area

Transport Pricing Flexibility Granted in Each Phase

- Phase I
  - Geographic deaveraging for all transport services (under a zoned rate structure)
  - Volume and term pricing, contract/RFP pricing
  - New services not subject to Part 69 public interest test and cost standard, obtain additional streamlined tariffing
  - Current 5% SBI increase per year increased to 10% per year
- Phase II
  - Geographic deaveraging without a zone rate structure or supporting cost documentation
  - Growth pricing, bundled service packaging, LATA specific pricing, greater latitude in promotional offerings, streamlining of price cap model
  - Simplification of price cap bands and baskets
- Phase III
  - Service group removed from price cap regulation

Competitive Triggers for Switched Access Flexibility

- Phase I - Negotiated or state approved agreements or SGATs for: UNEs, transport and terminating compensation, resale
- Phase II - Competitors have ability to offer service to 25% of the market
  - » At least 25% of local switching MOU can be addressed by competitors through collocation in Ameritech's wire centers within the designated competitive area
- Phase III - Competitors have ability to offer service to 75% of the market
  - » At least 75% of local switching MOU can be addressed by competitors through collocation in Ameritech's wire centers within the designated competitive area

Switched Access Flexibility Granted in Each Phase

- Phase I
  - Geographic deaveraging for all Switching Access services (e.g., Residual Charge, Local Switching) and for EUCL and PICC
  - Volume and term pricing, contract/RFP pricing
  - New services not subject to Part 69 public interest test and cost support, obtain additional streamlined tariffing
  - Current 5% SBI increase per year increased to 10% per year
- Phase II
  - Geographic deaveraging without zone rate structure and supporting cost documentation
  - Growth pricing, bundled service packaging, streamlining of price cap model
  - Simplification of price cap bands and baskets
- Phase III
  - Services removed from price cap regulation

Elimination of Price Cap X-Factor

- As competition captures productivity gains in the pricing of services, X-factor reductions should be phased out
- X-factor reductions will promote investment in the network
- Criteria for X-factor reductions:
  - » Phase I - when a predefined area for relief meets Phase I criteria, the X-factor applied to revenues associated with that study area should be reduced, at a minimum, to 6.0% via the elimination of the Consumer Productivity Dividend (CPD)
  - » Phases II - when a predefined area for relief meets Phase II criteria, revenues associated with that study area should not be assessed any X-factor reduction
  - » Phase III - no longer under Price Cap, thus no X-factor applied
- Weighted X-factor should be used to reflect the phased relief granted to ILEC price cap carriers

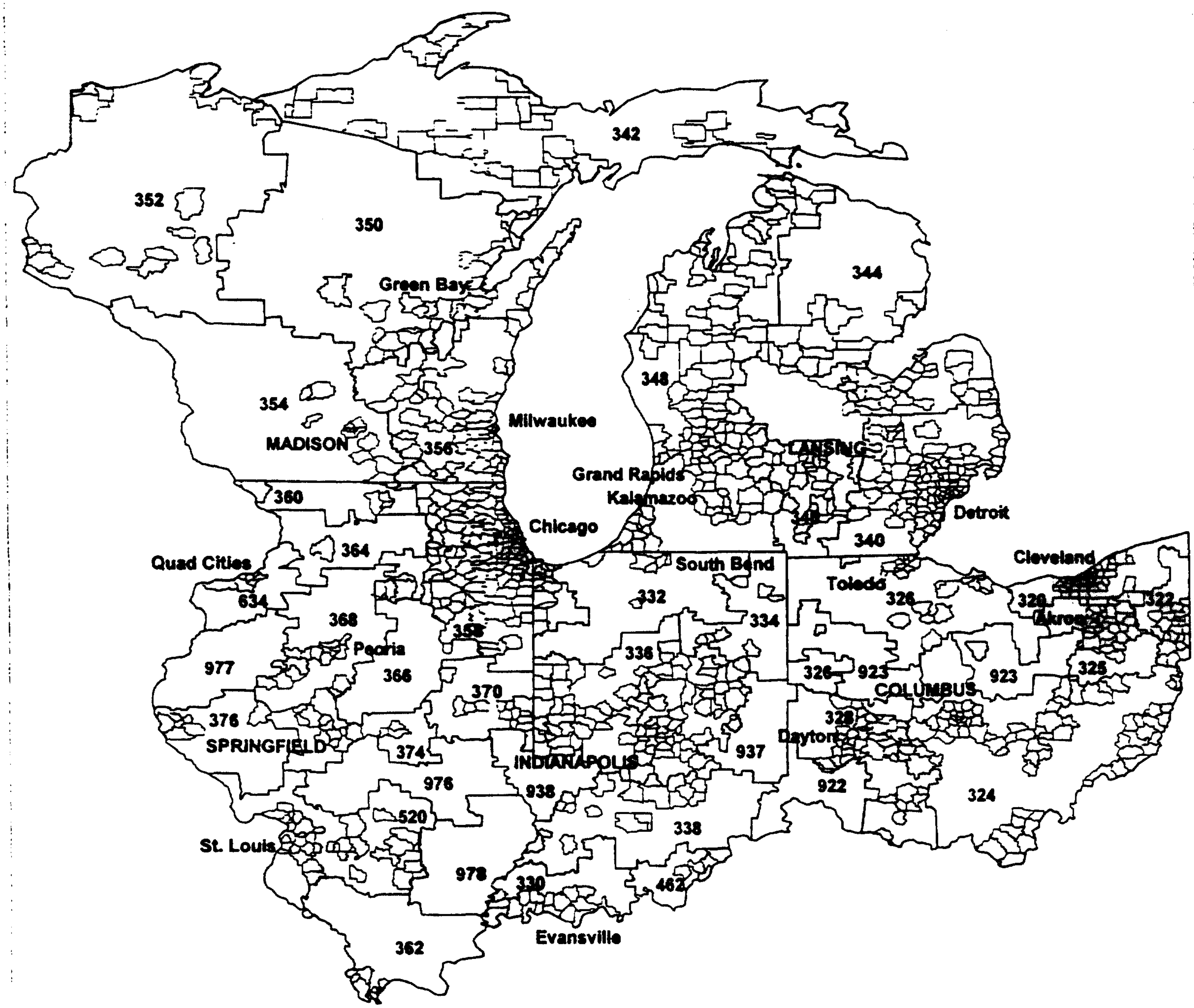
Calculation of Weighted Price Cap X-Factor

- Development of weighted X-factor to be done basket by basket. For example:
  - » $45 million of ILEC interstate switched access revenues in Phase I would have 6.0% X-factor applied
  - » $10 million in Phase II would have 0% X-factor applied
  - » $5 million in Phase III would have 0% X-factor applied
  - » $60 million total interstate switched access revenues within the pricing flexibility framework
  - » Weighted X-factor = (6% x 45/60) + (0% x 10/60) + (0% x 5/60)
- Thus the overall weighted X-factor to be used in price cap model for switched access would be 4.5%

Process of Moving LATAs Between Phases Within Price Cap Model

- Moving LATA from Phase I to Phase II
  - Only change is the X-factor applied, everything else within price cap model would remain the same
- Moving LATA from Phase II to Phase III
  - Simply remove services in given LATA from price cap model, no need to adjust the indices
    - Standard procedure within the price cap model is to change the "to" basket, not the "from" basket

Ameritech Wire Centers and LATAs



LATA

Wire Centers

N

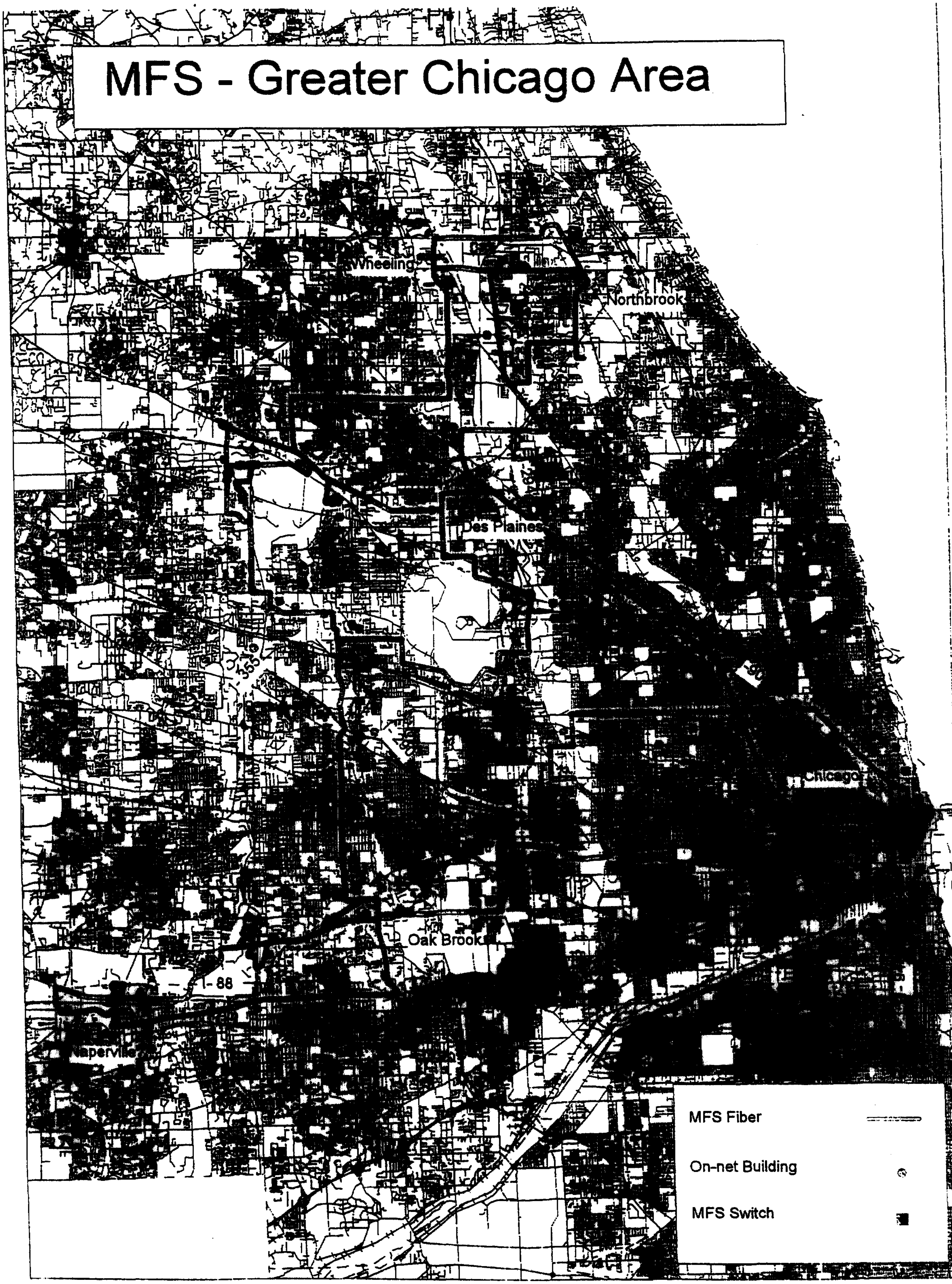
W E

S

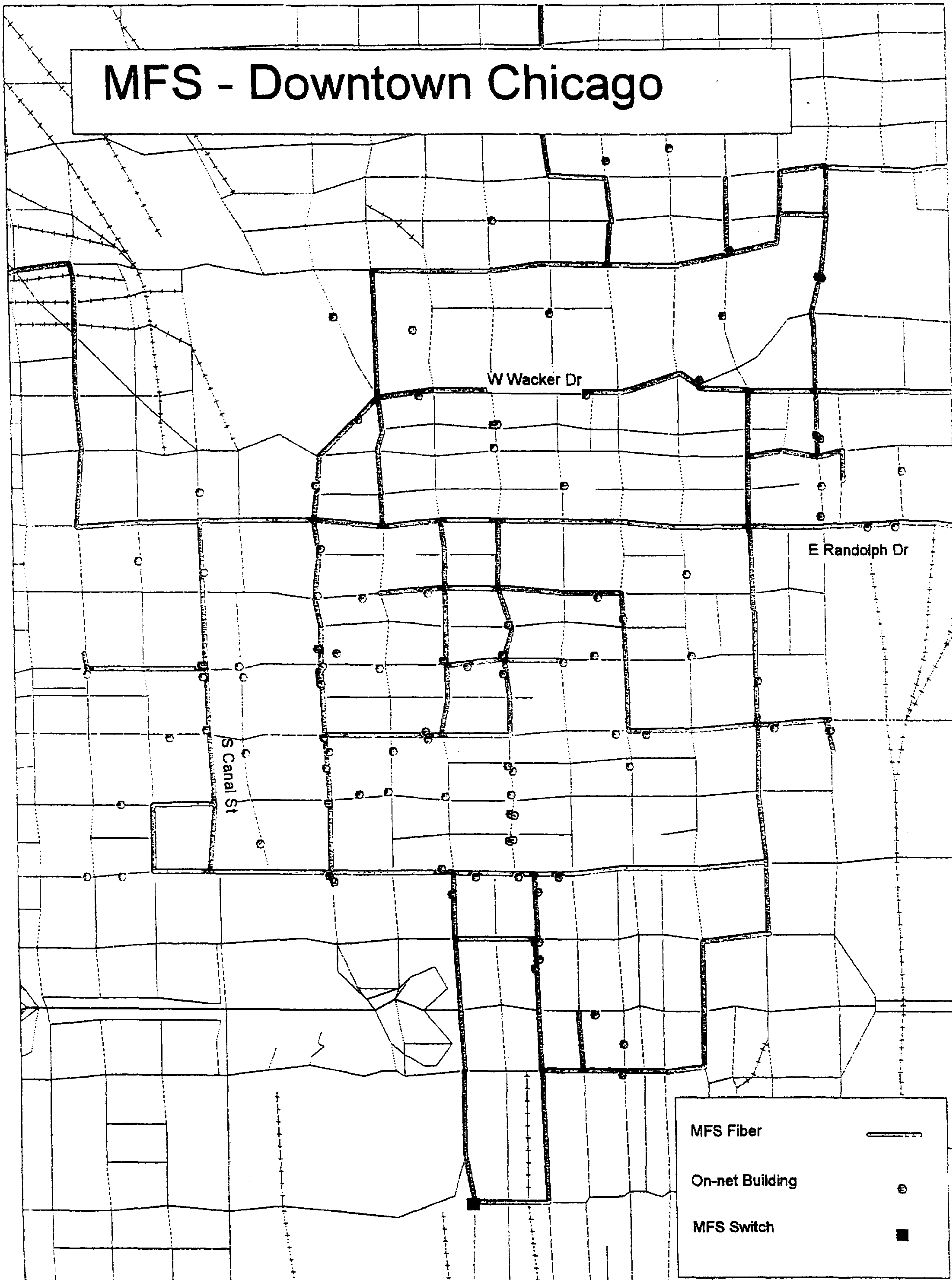
Ameritech

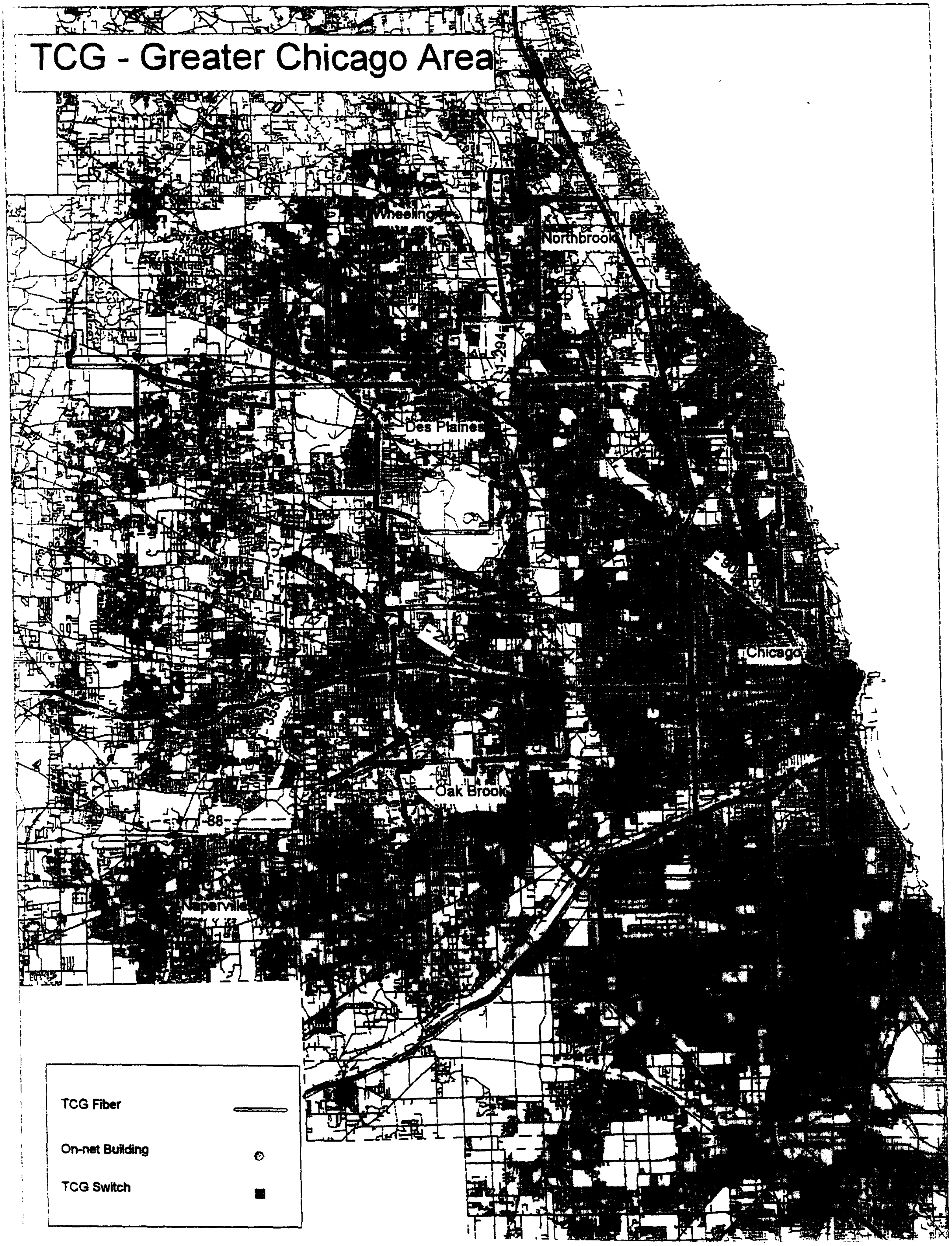
Integrated Strategy

425 West Randolph Floor 9
Chicago, IL 60606


MFS - Greater Chicago Area
Wheeling
Northbrook
Des Plaines
Chicago
Oak Brook
I- 88
Naperville
MFS Fiber
On-net Building
MFS Switch

MFS - Downtown Chicago




TCG - Greater Chicago Area
Wheeling
Northbrook
294
Des Plaines
90
290
Chicago
355
Oak Brook
88
Naperville
TCG Fiber
On-net Building
TCG Switch